GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:273
ANSWERED ON:11.08.2006
INTEREST RATES
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has increased the rate of interest on housing and consumer loans;

(b) if so, the extent to which the interest rate has been increased;

(c) the reasons which led to the increase of interest rate;

(d) whether the increase has adversely affected the Housing sector; and

(e) if so, the remedial steps taken by the Government in this regard?

Answer

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM):

(a) to (e) The interest rates on loans given by banks have been deregulated vide RBI circular dated 17th October, 1994. The banks are free to determine the rate of interest. However, RBI has stipulated that interests on loans by Commercial Banks upto Rs. 2/- Lacs should not exceed the Benchmark Prime Lending Rate. Interest rates are market driven and before bringing any change, the following facts are generally kept in view by Banks:-

(a) General credit off-take in banks

(b) Bank`s experience in managing loans

(c) Bank`s liquidity position

(d) RBI policy

(e) Prevailing interest rates within the banking system
(f) Prevailing rate of inflation

(g) Cost of funds

Some of the Public Sector Banks have reported that they have recently increased rates on home loans and consumer loans. The Banks are of the view that the increase in interest rates is marginal and no adverse effecton housing sector is foreseen.